

# Exempt Organization Business Income Tax Return

Obtain additional information or assistance, tax forms and instructions, and copies of tax rulings and tax procedures by contacting one of the numbers listed below:

Phoenix	(602)
255-3381	
Nationwide, toll-free	(800) 352-4090
Form Orders	(602) 542-4260
Forms by Fax	(602) 542-3756
Recorded Tax Information	
Phoenix	(602) 542-1991
Other Arizona areas, toll-free	(800) 845-8192
Hearing impaired TDD user	
Phoenix	(602) 542-4021
Other Arizona areas, toll-free	(800) 397-0256

Obtain tax rulings, tax procedures, tax forms and instructions, and other tax information by accessing the department's Internet home page at:

**[www.revenue.state.az.us](http://www.revenue.state.az.us)**

## General Instructions

### Organizations Which Must File This Tax Return

Certain organizations can apply to the Department of Revenue for an exemption from Arizona corporate income taxes. Organizations that have tax exempt status under ARS § 43-1201 file this return to report Internal Revenue Code § 512 unrelated trade or business income (UTBI).

Organizations exempt under ARS § 43-1201.8 file Form 99T to report UTBI if their income is payable to a church or to a convention or association of churches. These organizations also file this return if their income is payable to another tax exempt organization required to file Form 99T.

### Application for Exempt Status Under ARS § 43-1201

Section 43-1201 of the Arizona Revised Statutes states that organizations that are exempt from federal income tax under section 501 of the Internal Revenue Code are exempt from the tax imposed under Title 43 of the Arizona Revised Statutes.

The tax exempt status provided by ARS § 43-1201 applies only to corporate income taxes. The organization may still be subject to other taxes, such as withholding or transaction privilege taxes. Refer to Arizona Transaction Privilege Tax Procedure TPP 93-4 for information regarding applications for exemption from the Arizona transaction privilege tax.

An organization may request a letter of exemption from Arizona state income taxes by applying to the Corporate Audit Section of the Arizona Department of Revenue. The request can be in the form of a letter or a completed Arizona Form EX-4. Obtain Form EX-4 by calling the Tax Exempt

Coordinator of the Corporate Audit Section at (602) 542-3345 during regular business hours.

The request for exemption from corporate income taxes must contain the following information:

- The name and address of the organization that is requesting exemption.
- The type of organization that is requesting exemption. For example, is the organization charitable, civic league, teachers' or public employees' retirement fund, etc.
- A copy of the articles of incorporation or other instrument under which the organization operates, including any amendments. The document must set forth the tax exempt purpose and activity of the organization.
- A copy of the by-laws of the organization that is requesting exemption, including any amendments.
- A copy of the letter of determination issued by the Internal Revenue Service stating the status of the organization for federal income tax purposes. A member of a national tax exempt organization must furnish copies of its affiliation to the national organization and the national organization's letter of determination. If the Internal Revenue Service does not require the organization to apply for a letter of determination, the organization must provide adequate documentation to the department upon request.
- Signature, title, and phone number of a qualified officer of the organization that is requesting exemption.

The requested information should be mailed to:

Tax Exempt Coordinator  
Corporate Audit Section  
Arizona Department of Revenue  
1600 W Monroe  
Phoenix AZ 85007-2650

**NOTE:** *Homeowners Associations described in IRC § 528 are not exempt from tax under ARS § 43-1201. These organizations must file Arizona Form 120. However, certain Homeowners Associations are federally tax exempt under IRC § 501 (c)(4), as social welfare organizations, or under IRC § 501(c)(7), as clubs organized for pleasure or recreation. These Homeowners Associations are similarly tax exempt for Arizona income tax purposes. These organizations may file the Arizona Form 99.*

### Period Covered by Return

File returns for the calendar year or fiscal year. A fiscal year is an accounting period of 12 months or less ending on the last day of a calendar month other than December. Fiscal year basis taxpayers must indicate the period covered by the

taxable year. All taxpayers must indicate whether the taxable year is a calendar year or a fiscal year.

### Filing Original Returns

Returns are due by the 15th day of the **fifth** month after the close of the taxable year. If the organization has a valid federal or Arizona extension, file the return by the extended due date. Attach a copy of the federal or Arizona extension to the front of the Arizona return. Send the return to the Arizona Department of Revenue, PO Box 29079, Phoenix AZ 85038-9079. Attach a copy of the appropriate federal tax return.

The department normally determines the timeliness of a return by the postmark or other official mark of the U.S. Postal Service stamped on the envelope in which the return is mailed. Refer to Arizona General Tax Ruling GTR 93-1 for further information.

### Payment of Tax

The entire amount of tax is due by the original due date of the return.

### Extension of Time To File a Return

The organization can apply for an Arizona extension by filing a completed Arizona Form 120EXT by the original due date of the return. The organization can also use a valid federal extension, rather than applying for an Arizona extension. The organization must use Form 120EXT to transmit any extension payments, whether the organization uses a valid federal extension or requests an Arizona extension. Attach a copy of the federal or Arizona extension to the front of the Arizona income tax return.

The organization must pay 90 percent of the tax liability by the original due date of the return. The organization's tax liability may be the \$50 minimum tax. The department imposes the extension underpayment penalty on any late or underpaid extension payments.

The department grants an Arizona extension for a period of six months. Arizona will accept the federal extension for the same period of time as covered by the federal extension.

### Filing Amended Returns

File amended returns within four years after the filing of the original return. Attach a statement to the return that explains why the organization amended its Arizona return. If the organization amended its federal return, attach a copy of the amended federal return with all applicable schedules to the amended Arizona return.

**NOTE:** File amended returns for prior taxable years on the Arizona Forms 99T for those taxable years. Use the 1998 Form 99T to amend only the 1998 taxable year.

### Estimated Tax Payments

Organizations that expect an Arizona income tax liability for the taxable year of \$1,000 or more must make Arizona estimated tax payments. Use Form 120ES, *Corporation Estimated Tax Payment*.

For exceptions to the estimated tax requirements, see the instructions for Form 220, *Underpayment of Estimated Tax by Corporations*.

An organization that fails to make the required estimated tax payments is subject to penalty and interest on any estimated tax payment which is late or underpaid.

Arizona's required annual payment of estimated tax is the smaller of:

- Ninety percent of the organization's Arizona tax liability for the current taxable year; **or**
- One hundred percent of the organization's Arizona tax liability for the prior taxable year.

Organizations required to make Arizona corporate estimated tax payments should use the 1999 Form 120ES Worksheet to compute the required installments. Refer to the 1999 Form 120ES Worksheet and its instructions before completing the 1999 Form 120ES.

Effective for taxable years beginning on or after January 1, 1997, taxpayers whose Arizona corporate income tax liability for the preceding taxable year was \$20,000 or more must make Arizona corporate estimated tax payments via electronic funds transfer. If the taxpayer is making its estimated tax payments by electronic funds transfer (EFT), the taxpayer should **not** submit the Arizona Form 120ES to the department.

Taxpayers required to make estimated tax payments via electronic funds transfer must complete the department's electronic funds transfer authorization agreement at least 30 days prior to initiation of the first applicable transaction. Taxpayers whose Arizona corporate income tax liability for the preceding taxable year was less than \$20,000 may elect voluntary participation in the electronic funds transfer program. Voluntary participants in the program must complete the department's electronic funds transfer authorization agreement at least 30 days prior to the first applicable transaction.

Obtain additional information about the Arizona electronic funds transfer program by contacting the EFT Helpline at (800) 572-7037 (nationwide toll-free) or at (602) 542-2040 in Phoenix. The FAX line is (602) 542-4667.

### Penalties and Interest

**A. Late Filing Penalty.** A return filed after the original due date is subject to the late filing penalty unless the taxpayer has a valid federal or Arizona extension. The taxpayer must

attach a copy of the valid federal or Arizona extension to the return. A return filed after its extended due date is also subject to the late filing penalty. The late filing penalty is 5 percent of the tax found to be remaining due. The penalty period is for each month or fraction of a month between the due date of the return and the date the taxpayer filed the return. The maximum penalty is 25 percent of the tax found to be remaining due.

**B. Extension Underpayment Penalty.** A return filed without an attached valid federal or Arizona extension is subject to the extension underpayment penalty. The organization must pay 90 percent of the tax liability disclosed by the organization's return on or before the original due date of the return. The department imposes the extension underpayment penalty on any late or underpaid extension payments. The extension underpayment penalty is one-half of one percent (.005) of the tax not paid. The penalty period is for each 30 day period or fraction thereof between the original due date of the return and the date the taxpayer paid the tax. The maximum penalty is 25 percent of the tax not paid.

**C. Late Payment Penalty.** The department imposes the late payment penalty on tax not paid by the date prescribed for its payment. The late payment penalty is 10 percent of the tax not paid within the time prescribed for its payment.

**NOTE:** *If two or more of the penalties described in A, B, or C apply, the maximum combined penalty is 25 percent.*

**D. Interest.** The department assesses interest on any portion of the tax, whether determined by the department or the taxpayer, not paid by the date prescribed for its payment. The department applies the rate of interest, compounded annually, in the same manner and at the same time as prescribed by Internal Revenue Code § 6621. On January 1 of each year, the department adds any interest outstanding as of that date to the principal amount of the tax. It is then a part of the principal amount of the tax and accrues interest until paid.

**E. Estimated Tax Underpayment Penalty.** The department imposes the underpayment of estimated tax penalty on any late payment or underpayment of a required installment of estimated tax. Refer to Arizona Form 220 for further details. The penalty imposed is the penalty prescribed by ARS § 43-582 for the applicable period.

### IRC § 7519 Required Payments

The department will not allow the affected taxpayers to deduct the federal required payments on their Arizona tax returns as an ordinary and necessary business expense or otherwise.

### Rounding Dollar Amounts

Taxpayers must round amounts to the nearest whole dollar. If 50 cents or more, round up to the next dollar. If less than 50 cents, round down.

### Records

Every organization should maintain books and records substantiating information reported on the return and keep these documents for inspection. Arizona General Tax Ruling GTR 96-1 discusses the general requirements for the maintenance and retention of books, records and other sources of information received, created, maintained or generated through various computer, electronic and imaging processes and systems. Refer to this tax ruling for further information.

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## Line-by-Line Instructions

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Type or print the required information in the name, address, and information boxes on the top of page 1. Enter the unrelated business activity code(s) from the federal Form 990T. Fiscal year basis taxpayers must indicate the period covered by the taxable year. All taxpayers must indicate whether the taxable year is a calendar year or a fiscal year. Indicate whether this return is an original or an amended return.

Enter the federal employer identification number of the organization, which is its taxpayer identification number (TIN). Enter the Arizona withholding tax number and Arizona transaction privilege tax number for the organization.

All returns, statements, and other documents filed with the department require a taxpayer identification number (TIN). Taxpayers that fail to include their TIN may be subject to a penalty. Paid tax return preparers must include their TIN where requested. The TIN for a paid tax return preparer is either the individual's social security number or the federal employer identification number of the business. Paid tax return preparers that fail to include their TIN may be subject to a penalty.

### Apportionment Formula

If the organization engages in unrelated trade or business activities both within and without Arizona, the organization must apportion its income. This formula apportions the unrelated trade or business taxable income based on property, payroll, and sales in Arizona compared with everywhere. Everywhere means the property, payroll, and sales factors related to the whole unrelated trade or business activity.

**NOTE:** *ARS § 43-1139 (the apportionment ratio formula) provides that the apportionment ratio is a fraction. The numerator of the fraction is the property factor plus the*

*payroll factor plus two times the sales factor. The denominator of the fraction is four.*

### Line I - Property Factor

The value of tangible personal property and real property owned by the organization is its original cost. The organization normally determines the average value of its owned property by averaging the values at the beginning and ending of the tax period.

The value of tangible personal property and real property rented by the organization is eight times its net annual rental rate. The net annual rental rate is the annual rental rate paid by the organization for rented property less the aggregate annual subrental rates paid by subtenants of the organization. The organization automatically achieves averaging for rented property by the method of determining the net annual rental rate of such property.

List real property situated in and tangible personal property permanently located in this state as within Arizona only if connected with the unrelated business activity. Allocate the value of mobile property to Arizona on the basis of the total time the property was within Arizona.

### Line II - Payroll Factor

Enter salaries, wages, or other compensation of officers, employees, etc., as within the state if performance of the services occurs here. This rule applies regardless of where payment is made or control exercised. This rule also applies regardless of whether the performance of the services is partly or wholly in connection with the apportionable unrelated business carried on outside of Arizona. Allocate the compensation of officers and employees who perform services partly within and partly without Arizona to this state when:

- The services performed outside of Arizona are incidental to the employee's service within Arizona; or
- The employee's base of operation is in Arizona; or
- The employee has no base of operation in any state, but the direction or control of the employee is from this state; or
- The employee has no base of operation in any state, and there is no direction or control from a state in which the employee performs some part of his services, but the employee's residence is in this state.

### Line III - Sales Factor

Gross receipts means gross sales less returns and allowances. Gross receipts includes interest income, service charges, carrying charges, and time price differential charges incidental to such sales. Determine sales within this state on a destination sales basis.

Complete line III as follows:

- Multiply the amount entered on line III(a), column (a), the total Arizona sales, by 2 (double weighted sales factor on line III(b), column (a)). Enter the result on line III(c), column (a).
- Do not double the amount entered on line III(c), column (b), the everywhere sales of the taxpayer.
- *EXAMPLE:* The organization has Arizona sales of \$100,000 and everywhere sales of \$1,000,000. On line III(c), column (a), enter \$200,000 of Arizona sales. On line III(c), column (b), enter \$1,000,000 of everywhere sales for the organization.

The sales factor ratio on line III(c), column (c), may, in certain circumstances, exceed 100 percent. However, since the total ratio (line IV, column c) is divided by four, the average ratio (line V, column c) will not exceed 100 percent.

### Line V - Average Ratio

Divide the total ratio, line IV, column (c), by four. Enter the average ratio. Express the ratio as a decimal carried out to six places.

**NOTE:** Do not exclude a factor from the total ratio if the numerator of a factor is zero and the denominator of a factor is greater than zero.

### Tax Computation

#### Line 1 - Unrelated Trade or Business Taxable Income

Enter the amount of unrelated trade or business taxable income from federal Form 990T.

**NOTE:** ARS §§ 43-1231 and 43-1241 do not allow additions to or subtractions from federal unrelated trade or business taxable income similar to those allowed for corporations.

#### Line 2 - Apportionment Ratio

Complete this line only if the organization must apportion its unrelated trade or business taxable income between Arizona and any other state(s).

Enter the average ratio amount from line V. The organization must carry out the decimal on line 2 to six places.

#### Line 3 - Taxable Income Attributable to Arizona

If the organization must apportion its unrelated trade or business taxable income, multiply the amount on line 1 by the ratio on line 2. Enter the result.

If the organization has unrelated trade or business taxable income that is taxable entirely within Arizona, enter the amount from line 1.

**Line 4 - Computation of Tax**

Multiply the net unrelated trade or business taxable income that is subject to Arizona tax (page 1, line 3) by 8 percent. If the computed amount of tax is less than \$50, enter the minimum tax liability of \$50. This is the organization's Arizona tax liability.

**Payments****Line 5 - Extension Payment**

*Original Returns:* Enter any payment made with the request for extension of time to file the income tax return. Attach a copy of the Form 120EXT to the front of the return.

*Amended Returns:* Enter any payment made with the request for an extension of time to file the original return. **Do not** include or enter the amount of any penalties or interest paid.

**Line 6 - Estimated Payment**

*Original returns:* Enter the total amount paid by the organization on Form(s) 120ES for the taxable year. Attach a schedule listing payment dates and payment amounts.

*Amended Returns:* Enter the total amount of estimated tax payments made by the organization for the taxable year. **Do not** include or enter the amount of any penalties or interest paid. **Do not** reduce the total by the amount of an overpayment (on line 13 of a prior return) that was designated as an estimated tax payment for 1999 (on line 14 of a prior return).

**Line 7 - Total Payments**

*Original Returns:* Add lines 5 and 6. Enter the total.

*Amended Returns:* Enter the total amount of tax payments made for the taxable year. Compute the total as follows:

- Add the amounts entered on lines 5, and 6;
- Add the amount of a payment sent with the original return (if any);
- Add the amount of any payments made after the original return was filed; and
- Subtract the amount of any previous refunds or amounts designated as an estimated tax payment for 1999 on a prior return.
- Do not include or enter the amount of any penalties or interest paid.

**Refund or Tax Due****Line 8 - Balance of Tax Due**

If the amount on line 4 is **larger** than the amount on line 7, there is a balance of tax due. Subtract line 7 from line 4 and enter the difference.

**Line 9 - Overpayment of Tax**

If the amount on line 7 is **larger** than the amount on line 4, there is an overpayment of tax. Subtract line 7 from line 4 and enter the difference (as a positive number).

**Line 10 - Penalty and Interest**

Calculate any penalty or interest due as a result of late filing or late payment of tax. Calculate interest on the amount shown on line 8 at the prevailing rate. The interest period is from the original due date of the return to the payment date. See the "Penalties and Interest" section of these instructions.

**Line 11 - Underpayment of Estimated Tax Penalty and Interest**

*Original returns:* The organization DOES NOT HAVE TO COMPLETE Arizona Form 220, *Underpayment of Tax by Corporations*, if the organization made its estimated tax payments based on either of the following methods:

- An amount equal to 90 percent of the current taxable year's tax liability (line 4), paid in four equal installments; or
- An amount equal to 100 percent of the organization's tax liability for the prior taxable year, paid in four equal installments.

The department will compute the estimated tax penalty and interest based on either of these methods and notify the organization of any amount due. If the organization elects to have the department compute the penalty and interest, do not check the box on line 11 or enter an amount on line 11.

The organization MUST COMPLETE Arizona Form 220, even though no penalty is due, if it made its estimated tax payments based on either of the following methods:

- The annualized income installment method; or
- The adjusted seasonal installment method.

Enter the total penalty and interest from Form 220, Part D, line 16. Attach the completed Form 220 to the return **and** check the box on line 11.

*Amended returns:* Do not recompute the estimated tax penalty and interest. Enter the amount from line 11 of the original return or the amount from a DOR correction notice.

**Line 12 - Total Amount Due**

If the taxpayer had a balance of tax due on line 8, add lines 8, 10, and 11. Enter the total on line 12. This is the total amount due. Pay this amount when the organization files the return. Make the check payable to Arizona Department of Revenue and include the taxpayer's TIN on the check.

**Lines 13 - Overpayment**

If the taxpayer had an overpayment of tax on line 9, subtract the total of line 10 and line 11 from line 9. Enter a positive difference on line 13. This is the total overpayment. If the

difference is a negative, enter the difference as a positive number on line 12.

**Line 14 - Overpayment Applied to Estimated Tax**

*Original Returns:* The organization may apply part or all of an overpayment reported on line 13 as a 1999 estimated tax payment. Enter the applicable amount on line 14.

*Amended Returns:* The taxpayer may apply part or all of an overpayment reported on line 13 as a 1999 estimated tax payment, if this amended return is filed during the taxpayer's 1999 taxable year. Enter the applicable amount on line 14.

**Line 15 - Refund**

Subtract line 14 from line 13. This is the refund amount.